

BOARD OF TRUSTEES LETTER

DEAR ACTIVE MEMBERS AND RETIREES:

The Board of Trustees of the Policemen & Firemen Retirement System of the City of Detroit is pleased to submit to you the comprehensive annual financial report for the fiscal year ended June 30, 1998.

FINANCIAL RESULTS

Although the past year was a highly challenging and demanding period in the financial markets, the Board's long term asset allocation plan once again proved to be well-positioned to take advantage of the continued record-breaking performance of the financial markets. The financial results achieved by the Board of Trustees went beyond the unprecedented results achieved in prior years. The Board's significant financial results achieved during this past year included:

1. The assets of the System increased by \$487 million, a 15% increase over the prior year.
2. The funded status of the System increased to 112% making the System one of the

strongest pension funds in the country.

3. The investment income recognized by the System was \$510 million, an increase of 19% over the prior year.
4. The system paid \$151 million in benefits to retirees, an increase of 4% over the prior year.
5. The overall return on the assets of the System was 17.6%.
6. The administrative expenses of the System were 13% less than those incurred in the prior year.

The active increase in pension benefits recently announced was made possible in large part by the outstanding financial performance of the Board of Trustees which continued during the past year.

OTHER ACCOMPLISHMENTS

In addition to the financial results achieved, the Board's other significant accomplishments achieved during this past year included:

1. The Board retained a new master securities

custodian having the latest systems and technology which should further reduce the administrative expenses of the System.

2. The System began publishing a newsletter twice per year.
3. Staff began implementing an internet web site.
4. Further enhancements to the System's state-of-the-art computer systems were implemented to provide quicker access to member files.
5. The System continued to provide a toll-free telephone number (1-800-339-8344).
6. The capabilities of the telephone system were expanded to handle an ever increasing volume of calls from active members and retirees.
7. We assigned an additional staff member to handle calls from our members and retirees who prefer not to utilize the telephone voice mail system.

At June 30, 1998 the System

had approximately 5,334 active employee members and approximately 7,750 retirees and beneficiaries.

This is a consolidated report of the Defined Benefit Plan and the Defined Contribution Plan of the Retirement System. The report consists of six (6) sections:

- I **INTRODUCTORY SECTION** contains the Board of Trustees letter of transmittal, lists Retirement Board members, and summarizes the Plan Benefit provisions.
- II **FINANCIAL SECTION** contains the Independent Auditors report and the financial statements of the System.
- III **ACTUARIAL & STATISTICAL SECTION** contains the results of the annual valuation and statistical tables which contain significant data pertaining to the Policemen & Firemen Retirement System.
- IV **INVESTMENT SECTION** summarizes investment activities and identifies the System's advisors and consultants.

BOARD OF TRUSTEES LETTER CONT

V SPECIAL INFORMATION SECTION

contains the "Safe Harbor Explanation" provided to recipients of distributions from qualified plans in order to satisfy section 402(f) of the Internal Revenue Code.

VI QUESTION & ANSWER SECTION

contains commonly asked Retirement System related questions.

ACCOUNTING SYSTEM AND REPORTS

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to governmental units.

Effective with the 1994-95 fiscal year, in accordance with standards promulgated by the Governmental Accounting Standards Board (GASB), the Trustees adopted the Market Value basis of reporting for investments, replacing book value. Accordingly, all schedules presented in this report reflect changes in market value for all Retirement System assets.

REVENUES

The reserves needed to fund retirement benefits are accumulated through the collection of employer and employee contributions and through income on investments. Employer contributions for 1997-98 fiscal year totaled \$48,120,578 while employee contributions were \$8,628,960. The Retirement System net investment income for the fiscal year was \$542 million. This income results in the Defined Contribution Plan (Annuity Savings Fund) interest rate for 1999-2000 fiscal year to be 17.6%.

EXPENSES

Benefit payments are the primary disbursements of a Retirement System. Consequently, recurring benefit payments prescribed by the plan, refunds of contributions from the Defined Contribution Plan to terminated employees and the cost of administering the system comprise the total expenses. Administrative expenses are funded wholly through investment income.

Benefit disbursement for 1997-98 fiscal year totaled \$182 million. Of this amount \$151 million was paid to fulfill the System's obligation to its

retirants. Refunds to members or beneficiaries for reasons of separation from service or death totaled \$30 million.

FUNDING AND RESERVES

The trust funds consist of contributions and earnings that are accumulated by the Retirement System in order to meet current and future benefit obligations to retirants and beneficiaries. A higher level of funding and a larger accumulation of assets leads to a greater potential for higher investment income. Continuous improvement in the funding of the System is the trustees' objective.

As of June 30, 1998 funds of the System totaled \$3.639 billion. The actuarial valuation dated July 1, 1998 reveals that the Retirement System is more than fully funded.

INVESTMENTS

The Retirement System invests all available funds in order to maximize both current income and long-term appreciation. The investment portfolio provided revenues of \$556 million for 1997-98 fiscal year. The primary objective of the System's investment policy is to assure that the System meets

its responsibilities for providing retirement benefits. The portfolio is diversified to provide the highest possible total return on the System's assets with the least exposure to risk.

ACKNOWLEDGEMENTS

The preparation of this report reflects the combined efforts of the Retirement Systems' staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, to disclose compliance with legal provisions, and as a means of disseminating vital and pertinent information to all active and retired members of the Policemen & Firemen Retirement System of the City of Detroit. This report is being distributed to all active members, retirees and other interested parties.

Respectfully submitted,

Board of Trustees
Policemen & Firemen
Retirement System
of the City of Detroit

ELECTED EMPLOYEE MEMBERS:

MARK F. KNOWLES
Fire Fighter,
Fire Department
Term expires June 30, 1998

RONALD J. STAMPIN
Sergeant, Police Department
Term expires June 30, 1998

SAMUEL ABDELNOUR
Battalion Fire Chief,
Fire Department
Term expires June 30, 1999

JOHN CLARK
Commander,
Police Department
Term expires June 30, 1999

GEORGE ORZECZ
Fire Sergeant,
Fire Department
Term expires June 30, 2000

DERRICK ROYAL
Police Officer,
Police Department
Term expires June 30, 2000

EX-OFFICIO MEMBERS:

DENNIS W. ARCHER
Mayor

GIL HILL
Council Designate,
City Council

SHAFTER TERRY III
Treasurer

ISALAH MCKINNON
Chief of Police

JAMES E. BUSH
Fire Commissioner

OFFICERS:

VALERIE L. JOHNSON
Finance Director
Ex-officio Secretary

THOMAS ZDRODOWSKI
Executive Secretary

NICHOLAS DEGEL
Assistant Secretary

ACTUARY:

GABRIEL, ROEDER,
SMITH & CO.

MEDICAL DIRECTOR:

REGINALD E. O'NEAL, D.O.

PERFORMANCE EVALUATION:

SMITH BARNEY

LEGAL ADVISOR:

RONALD ZAJAC

REAL ESTATE CONSULTANT:

THE TOWNSEND GROUP

MASTER CUSTODIAN:

COMERICA BANK

FULL SERVICE CONSULTANT:

WATSON WYATT

AGE AND SERVICE RETIREMENT

ELIGIBILITY - 25 years of service regardless of age.

ANNUAL AMOUNT - An annuity equal to the actuarial equivalent of the member's accumulated contribution account plus a defined benefit, which, when added to the annuity will provide the following:

- Pre-1969 Members:
2.1% of AFC times the first 25 years of service, with Maximum allowance = 15/22 of a patrolman's or fireman's annual rate of compensation.
- 1969 Plan Members:
2.1% of AFC times the first 35 years of service.

EFFECTIVE JULY 1, 1998*

- Pre-1969 Members:
2.5% of AFC times the first 25 years of service, with Maximum allowance = 15/22 of a patrolman's or fireman's annual rate of compensation.
- 1969 Plan Members:
2.5 % of AFC times first 25 years of service plus 2.1% times the next 10 years of service.

* Pension improvements were effective 7/1/97 for members of the Detroit Police Command Officers Association and the Detroit Police Lieutenants & Sergeants Association and non-union Police and Fire Executives.

Members may elect to receive their accumulated contribution account in a lump sum after 25 years of service. The defined benefit at retirement is then reduced by the actuarial equivalent of the amount of principal withdrawn (no reduction is made with regard to the interest portion of the withdrawal).

Pre-1969 plan members may elect 1969 plan benefits at the time of retirement.

TYPE OF AVERAGE FINAL COMPENSATION (AFC) - Average of current compensation for ranks held each of last 5 years.

VALUE OF COMPENSATION REDUCTIONS INCLUDED IN PENSION COMPUTATION - No member or former member will suffer a diminution of pension benefits computation due to reduction in compensation because of a fiscal emergency.

DEFERRED RETIREMENT (VESTED BENEFIT)

ELIGIBILITY - Age 40 with 8 years of service.

ANNUAL AMOUNT - Same as regular retirement but based on average final compensation and credited service at the time of termination.

BENEFIT COMMENCEMENT - Members hired prior to 7/1/85: Unreduced benefit begins at the age when the member would have first been eligible for regular retirement had the member continued in City service. **Members hired after 6/30/85:** Unreduced benefit begins at age 62. All members may elect a reduced benefit payable immediately.

DUTY DISABILITY RETIREMENT

ELIGIBILITY - No age or service requirement.

ANNUAL AMOUNT - 66-2/3% of final compensation payable to the eligibility date for regular retirement. After the eligibility date for regular retirement, computed as a regular retirement benefit. Worker's compensation payments are offset.

D.P.O.A. members who file and receive a disability retirement after July 1, 1995, receive a basic benefit of 50% of final compensation and a supplemental benefit of 16 2/3% of final compensation. After 24 months, members disabled from any occupation continue to receive both benefits, otherwise, members receive only the 50% benefit. Upon attaining twenty-five years of service, members receive only the basic benefit of 50%. Member's convert to regular retirement at age 65. Worker's compensation payments are offset.

SUMMARY OF PLAN BENEFIT PROVISIONS CON'T

6

NON-DUTY DISABILITY RETIREMENT

ELIGIBILITY - 5 years of service.

ANNUAL AMOUNT -

Computed as a regular retirement benefit, but based on average final compensation and credited service at the time of disability. Minimum benefit is 20% of average final compensation.

DUTY DEATH BEFORE RETIREMENT

ELIGIBILITY - No age or service requirement.

ANNUAL AMOUNT - Widow receives 5/11 of a patrolman's or fireman's compensation and each child under age 18 receives 1/10 of such compensation with a maximum total of 7/33 of such compensation. If there is no widow, each child receives 1/4 of such compensation with a maximum total of 1/2 of such compensation. If there is no widow or children, each dependent parent receives 1/6 of such compensation. Worker's compensation payments are offset.

NON-DUTY DEATH BEFORE RETIREMENT

ELIGIBILITY - No age or service requirement.

ANNUAL AMOUNT - Same as regular retirement benefit to a widow or dependent widower, but reduced in accordance with a 100% joint and survivor option election. Minimum benefit is 20% of average final compensation. If there is no spouse, each child under 18 receives 1/7 of a patrolman's or fireman's compensation with a maximum total of 2/7 of such compensation. If there is no spouse or children, each dependent parent receives 1/7 of such compensation.

POST-RETIREMENT COST-OF-LIVING ADJUSTMENTS

PRE-1969 PLAN MEMBERS: Allowances increase in proportion to active member compensation for the corresponding rank.

1969 PLAN MEMBERS: Pensions increase by 2.25% of the **original** pension amount each July 1.

MEMBER CONTRIBUTIONS

5% of covered compensation payable until first eligible for regular retirement.